

1 IN THE COUNTY OF WASHINGTON

2 VIRGINIA DEPARTMENT OF MINES, MINERALS AND ENERGY

3 VIRGINIA GAS AND OIL BOARD

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8 NOVEMBER 16, 2004

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11 APPEARANCES:

12 DENNIS GARBIS - PUBLIC MEMBER

DONALD RATLIFF - COAL REPRESENTATIVE

13 PEGGY BARBAR - PUBLIC MEMBER

MASON BRENT - OIL & GAS REPRESENTATIVE AND SUBSTITUTE

14 CHAIRMAN

JIM McINTRYE - CITIZEN APPOINTEE

15
16 SHARON PIGEON - OFFICE OF THE ATTORNEY GENERAL

17 BOB WILSON - DIRECTOR OF THE DIVISION OF GAS & OIL AND
18 PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD

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1 MASON BRENT: Good morning. My name is Mason
2 Brent. I'm standing in today for Benny Wampler as Chairman.
3 Benny is out of town and couldn't make it to the meeting
4 today. I'd ask the Board members, if they will, to introduce
5 themselves starting with Mr. Garbis.

6 DENNIS GARBIS: My name is Dennis Garbis. I'm a
7 public member from Fairfax County.

8 SHARON PIGEON: I'm Sharon Pigeon with the Office
9 of the Attorney General.

10 DONALD RATLIFF: I'm Donnie Ratliff representing
11 the coal industry.

12 PEGGY BARBAR: I'm Peggy Barbar representing the
13 private sector.

14 JIM MCINTRYE: Jim McIntrye, Wise, Virginia. I'm a
15 citizen appointee.

16 BOB WILSON: I'm Bob Wilson. I'm the Director of
17 the Division of Gas and Oil, and Principal Executive to the
18 staff of the Board.

19 MASON BRENT: Okay, thank you. The first item on
20 today's agenda is a petition from CNX Gas Company, LLC for
21 disbursement of funds from escrow and authorization for
22 direct payment of royalties from Tracts 3, 5, 7 and 8, unit
23 T-16. This is VGOB docket number 94-1024-0476-01, continued
24

1 from October. I'd ask all interested parties who would like
2 to address the Board on this matter to come forward at this
3 time.

4 MARY JO SWARTZ: Thank you. My name is Mary Jo
5 Swartz. With me is Anita Duty from CNX Gas Company.
6 Initially, we would like to ask that docket items number one
7 and two be combined as they generate from the same tract and
8 unit. These items were continued from the last hearing for
9 the purpose of reconciling some accounts. That process is
10 still ongoing. So, we would like to continue these two items
11 to the next hearing. If you have any questions about the
12 reconciliation, Ms. Duty will be able to fill you in on that.

13 MASON BRENT: Do you have any comments on that.

14 (Anita Duty is duly sworn.)

15 ANITA DUTY: We're just having a problem since
16 those are really old. There's two...for some reason, there's
17 two separate escrow accounts. To try to get the deposit
18 amount to match, the ledger sheet, we're just having a hard
19 time...I...I'm in communication with our leasing...the people
20 that pay our royalties. They're trying to help me get
21 everything together. But still...we still haven't figured
22 out the problem yet. So until we do, we make sure everything
23 is okay.

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1 MASON BRENT: Okay, before we continue number two,
2 I'll call it, and then we will...then we will continue it.
3 In addition to item agenda number one at this time, we are
4 hearing a petition from CNX Gas Company, LLC for disbursement
5 of funds from escrow and authorization for direct payment of
6 royalties on Tract 2 and unit T-15. This is docket number
7 VGOB-92-1215-0306-01, also continued from October. Unless
8 there are any objections from my fellow Board members, we
9 will continue these two items until November.

10 DONALD RATLIFF: That's fine.

11 ANITA DUTY: December.

12 MARY JO SWARTZ: December.

13 MASON BRENT: Hearing no objections, they're
14 continued.

15 MARY JO SWARTZ: Thank you.

16 MASON BRENT: To December, I'm sorry.

17 MARY JO SWARTZ: December.

18 MASON BRENT: I was not here last month. So it's
19 October to me.

20 MARY JO SWARTZ: So that didn't count, yes. Thank
21 you.

22 MASON BRENT: The next item on our agenda is a
23 petition from CNX Gas Company, LLC for disbursement of funds
24

1 from escrow and authorization for direct payment and
2 royalties on Tract 2B and 2C, Unit AA-9. This is docket
3 number VGOB-91-0430-0116-01, and this also is continued from
4 October. The parties who are interested in addressing the
5 Board on this matter, come forward at this time.

6 MARY JO SWARTZ: Yes. I'm Mary Jo Swartz and with
7 me is Anita Duty from CNX Gas Company. This particular item
8 was continued from last month simply for the purpose of
9 giving adequate notice. Ms. Duty can address the fact that
10 notice has been given.

11 MASON BRENT: Once, again, you're under oath.

12 ANITA DUTY: I gave copies of the green cards to
13 Bob. The only thing that I have to add on this one is, it
14 seems like every time we do one of these disbursements
15 another heir finds out about it. So we had another one, in
16 the meantime, to sign a royalty split agreement. So, if you
17 want to...and she got a copy of the notice too. So, I've got
18 her on that...the green card. So, I don't know how...do you
19 want me to just tell her percentage and...we've already done
20 all...everything for it last month and we're just
21 adding...I'm just adding her because she signed in between
22 the two hearings. So---.

23 MASON BRENT: Well---.

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1 MARY JO SWARTZ: Testimony was given on this last
2 month.

3 MASON BRENT: With the exception of this update, is
4 that correct?

5 ANITA DUTY: Right. Right. She signed one after
6 the hearing last month. So, I just kind of want to add her
7 since we're in the same unit, if that's okay.

8 MASON BRENT: Okay. And her percentages are on the
9 record?

10 ANITA DUTY: Well, I've got exhibits to give Bob,
11 revised exhibits, that include her interest. So, do you want
12 me to tell you what her---?

13 MASON BRENT: Please.

14 ANITA DUTY: Okay. For AA-8, I want to add Lucy
15 Coleman Looney, and her interest will be for Tract 1B, the
16 percent in escrow to split will be 0.5980, which for her
17 would be 0.299.

18 MARY JO SWARTZ: Okay, you skipped down to number
19 five when we were talking about number three. Actually,
20 three, four and five, again, they all sort of go together.
21 We can either combine and do them all at once or we can got
22 through them separately one by one.

23 MASON BRENT: Which would you rather do?

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1 MARY JO SWARTZ: I think it would probably be
2 easier if we did them all at once.

3 ANITA DUTY: Yeah. What did I do skip?

4 MARY JO SWARTZ: Three, four and five.

5 ANITA DUTY: I did AA-9...AA-8.

6 MARY JO SWARTZ: Yeah.

7 MASON BRENT: So, you want to combine three, four
8 and five?

9 MARY JO SWARTZ: Yes.

10 MASON BRENT: Okay, well, let me call four and five
11 now. In addition to agenda item number three, we will also
12 here at this time, a petition from CNX Gas Company, LLC for
13 disbursement of funds from escrow and authorization for
14 direct payment of royalties on Tract 2C, Unit BB-8. This is
15 docket number VGOB-90-1010-0033-02, continued from October.
16 We will also hear a petition from CNX Gas Company, LLC for
17 disbursement of funds from escrow and authorization for
18 direct payment of royalties on Tract 1B in Unit AA-9. This
19 is docket number VGOB-90-1010-0032-02, also continued from
20 October. I'd ask the parties that would like to address the
21 Board on these matters, in addition to agenda item number
22 three, to come forward at this time.

23 MARY JO SWARTZ: Mary Jo Swartz and Anita Duty for
24

1 CNX Gas Company.

2 MASON BRENT: Okay, you may proceed.

3 ANITA DUTY: Okay, just let me...let me just start
4 over. I'll go back to number three in a second.

5 MASON BRENT: That would be---.

6 ANITA DUTY: I do them in alphabetic order and not
7 in...I forget that part. Okay, for AA-9, Lucy Looney's
8 percent would be 0.1587. That's the portion that should be
9 paid to her and a portion to be paid Harrison-Wyatt. For BB-
10 8, 0.1379% of escrow to be paid to her and 0.1379% to be paid
11 to Harrison-Wyatt. For Unit AA-8, 0.229% paid to Lucy Looney
12 and 0.299% to be paid to Harrison-Wyatt.

13 MASON BRENT: Any questions from the Board?

14 DONALD RATLIFF: Mr. Chairman, this is the Arms
15 Heirs?

16 ANITA DUTY: Uh-huh.

17 MASON BRENT: Any other questions from the Board
18 members?

19 DONALD RATLIFF: I move that we approve, Mr.
20 Chairman.

21 PEGGY BARBAR: Second.

22 MASON BRENT: All right. I have a motion for
23 approval and a second. Any further discussion?
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1 (No audible response.)

2 MASON BRENT: All in favor for approval, signify by
3 saying yes.

4 (All members signify by saying yes.)

5 MASON BRENT: Opposed, say no.

6 (No audible response.)

7 MASON BRENT: You have approval. The next item on
8 the agenda today is a petition from CNX Gas---.

9 MARY JO SWARTZ: We have one more thing to add on
10 those.

11 ANITA DUTY: Because of the way our accounting
12 works, sometimes when these disbursements are done our
13 payments have already been sent to escrow. Can we make these
14 orders effective as of the end of this month, that way our
15 royalty payments don't go to the bank in the, you know,
16 interim? Last month, we had the same thing happen. We had
17 to call the bank and get them to send the checks back. We
18 were just wondering if we could make it effective the end of
19 this month to keep that from happening at this point---.

20 BOB WILSON: Mr. Chairman, excuse me.

21 MASON BRENT: Mr. Wilson.

22 BOB WILSON: I would suggest even one better,
23 making it effective as of today.

24

1 LESLIE K. ARRINGTON: No.

2 BOB WILSON: That's not going to work?

3 LESLIE K. ARRINGTON: No.

4 SHARON PIGEON: That's what we've been doing.

5 LESLIE K. ARRINGTON: No. Well, the reason we'd

6 rather not do that because it...you have to break up your

7 accounting. So we'd like it at the end of the month.

8 MASON BRENT: You want to get on the same time line

9 as the bank, is that right?

10 LESLIE K. ARRINGTON: Yes. The bank and our

11 accounting procedures. That way we don't have like twenty-

12 five days on one set of accounting and five days on another.

13 Do you see what I mean?

14 BOB WILSON: Yeah, I do. I'm not sure---.

15 ANITA DUTY: Well, if you'd just make it effective

16 as of say the November payments that we can stop and not send

17 the November payment to the bank. I mean, I don't know how

18 you want to word it.

19 BOB WILSON: I would actually envision putting

20 something in the order when we get to it, stating that the

21 order is effective as of the date of approval because what

22 we're doing with our pooling orders and everything now, just

23 be consistent with that and put language in there that allows

24

1 you to adjust your payment to whatever necessity you have
2 insofar as your bookkeeping is concerned, but it gives you
3 the authority to seize payment into that account as of the
4 end of whatever payment period you're in, but make the...go
5 ahead and make the order effective. Otherwise, again, just
6 from the standpoint of consistency in the orders and that
7 sort of thing, we're going to end up with a possible
8 situation that we can create our own errors in there. I
9 assume...I know where you're getting at. You're looking at
10 it from a bookkeeping standpoint.

11 LESLIE K. ARRINGTON: Yes.

12 BOB WILSON: But I would think that we could cover
13 the...again, being consistent with the pooling orders and
14 such, which are effective as of the date that it is approved
15 by the Board, and put language in there that allows you to
16 adjust the payment, which is already going to be done by the
17 time the order comes out anyway.

18 LESLIE K. ARRINGTON: In other words, you're saying
19 recoup?

20 BOB WILSON: No, no. I'm saying allow you to
21 select the date that you end payment into the escrow account
22 for those tracts according to your bookkeeping schedule. But
23 the order is already effective when it comes out...when it's

24

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1 approved here today.

2 ANITA DUTY: We can just...because the supplemental
3 order makes us, you know, we have to deposit the money each
4 month. You're saying that we don't have to deposit the
5 November...we don't have to put the November deposit in. We
6 can hold that and wait until---.

7 LESLIE K. ARRINGTON: And then go ahead and start
8 paying directly.

9 ANITA DUTY: ---the disbursement...paying directly
10 from this point...from like---.

11 BOB WILSON: Sure.

12 ANITA DUTY: ---they do the checks like the 25th.

13 BOB WILSON: In other words, you can...you
14 can...you can actually start---.

15 ANITA DUTY: Seize payment today.

16 BOB WILSON: ---right now, yeah.

17 ANITA DUTY: And we can...okay.

18 BOB WILSON: You don't pay it in on a daily basis
19 anyway. You pay it in on a monthly basis.

20 LESLIE K. ARRINGTON: That's right, okay.

21 BOB WILSON: So you can as of today.

22 ANITA DUTY: So the payments for this month, okay.

23 DONALD RATLIFF: Mr. Chairman, let me amend the

24

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1 motion and make this approval effective December 1, and put
2 that in the minutes. Will that fix it, Les?

3 LESLIE K. ARRINGTON: Uh-huh. Yeah.

4 MASON BRENT: Bob, do you have any comment on that?

5 BOB WILSON: No, sir, if that's what the Board
6 wishes to do, I'll execute it.

7 (Leslie K. Arrington confer with Anita Duty.)

8 MASON BRENT: All right, we have an amendment to
9 our motion to make the approval---.

10 JIM MCINTYRE: Motion to approve.

11 MASON BRENT: Is there a second?

12 DONALD RATLIFF: Second.

13 MASON BRENT: Any further discussion?

14 (No audible response.)

15 MASON BRENT: All in favor, signify by saying yes.

16 (All members signify by saying yes.)

17 MASON BRENT: Opposed, say no.

18 (No audible response.)

19 MASON BRENT: You have approval. The next item on
20 the agenda is a petition from CNX Gas Company, LLC for
21 pooling of a coalbed methane Unit AX-99. This is docket
22 number VGOB-04-1116-1358. I'd ask all parties that are
23 interested in addressing the Board on this matter to come
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1 forward at this time.

2 MARY JO SWARTZ: Yes, I'm Mary Jo Swartz, again. I
3 hate to screw things up, but if you'll look down there at the
4 docket, items nine, ten and eleven are disbursements, and I
5 would request that we take those items out of order just so
6 we can get the disbursement testimony done for Anita, if
7 anybody doesn't have any objections.

8 DONALD RATLIFF: So you want to hold...you want to
9 hold six?

10 MASON BRENT: You want to hold six for now?

11 MARY JO SWARTZ: Yes. We'll hold six until after
12 the disbursements...six, seven and eight actually are all
13 poolings, and then nine, ten and eleven are more
14 disbursements.

15 MASON BRENT: Okay, at this time, I will call
16 agenda items nine, ten and eleven. A petition from CNX Gas
17 Company, LLC for disbursement of funds from escrow and
18 authorization for direct payment of royalties on Tract 1A,
19 Unit FF-25. This is docket number VGOB-00-1017-0831-01.
20 Also, I'll call the petition from CNX Gas Company, LLC for
21 disbursement of funds from escrow and authorization for
22 direct payment of royalties on Tract 1A, Unit FF-24. This is
23 docket number VGOB-00-1017-0830-01. We'll also call the
24

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1 petition from CNX Gas Company, LLC for disbursement of funds
2 from escrow and authorization for direct payment of royalties
3 on Tract 3, Unit DD-24. This is docket number VGOB-01-0320-
4 0878-01. We'd ask all parties that are interested in
5 addressing the Board on this matter to come forward at this
6 time.

7 MARY JO SWARTZ: Yes, thank you.

8 ANITA DUTY

9 DIRECT EXAMINATION

10 QUESTIONS BY MRS. SWARTZ:

11 Q. Anita, I believe you've distributed the
12 spreadsheets on these three units to the Board members. I'd
13 just like to, you're still under oath, ask you if you were
14 able to reconcile and balance the operator's payment
15 accounting number with the escrow agent records that was
16 deposited for these three units?

17 A. Yes. All three of the accounts balanced.

18 Q. Okay, thank you. What is it that you are
19 requesting that the Board do with regard to these three
20 units?

21 A. Okay, for Unit DD-24, for Tract 3, Ellen
22 Fletcher, she has seven-eighths of the 1.54 acres. So, I'm
23 asking that we disburse 2.8682% to Ellen Fletcher and 2.8682%

24

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1 to Hugh MacRae and Torch for Unit DD-24. For Unit FF-24,
2 8.5164% to Ellen Fletcher, 8.5164% to Hugh MacRae and Torch.
3 For Unit FF-25, 24.0935% to Ellen Fletcher and 24.0935% to
4 Hugh MacRae and Torch, and to pay these royalties directly
5 and make it effect as of, I guess, December the 1st...make
6 this order...

7 COURT REPORTER: Pardon me, Anita, are you saying
8 Ellen, with an E?

9 ANITA DUTY: Ellen, uh-huh.

10 MASON BRENT: Any questions from the Board?

11 (No audible response.)

12 DONALD RATLIFF: I move to approve as requested,
13 Mr. Chairman.

14 JIM MCINTYRE: Second.

15 MASON BRENT: We have a motion and a second. Any
16 further discussion?

17 (No audible response.)

18 MASON BRENT: All in favor, signify by saying yes.

19 (All members signify by saying yes.)

20 MASON BRENT: Opposed, say no.

21 (No audible response.)

22 MASON BRENT: You have approval.

23 MARY JO SWARTZ: Thank you.

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1 MASON BRENT: All right, we'll back up to agenda
2 item number six, which we have already called. Just to
3 repeat, this is docket number VGOB-04-1116-1358. I'd ask all
4 parties that are interested in addressing the Board on this
5 matter to come forward at this time.

6 MARY JO SWARTZ: Yes. Mary Jo Swartz, and with me
7 is Les Arrington with CNX Gas. We're appearing on behalf of
8 the applicant CNX.

9 (Leslie K. Arrington is duly sworn.)

10

11 LESLIE K. ARRINGTON
12 having been duly sworn, was examined and testified as
13 follows:

14 DIRECT EXAMINATION

15 QUESTIONS BY MRS. SWARTZ:

16 Q. Would you please state your name for the
17 record?

18 A. Leslie K. Arrington.

19 Q. And who do you work for?

20 A. CNX Gas Company, LLC.

21 Q. And what is your title?

22 A. Manager of environmental and permitting.

23 Q. And who is the applicant on this pooling?

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1 A. CNX Gas Company.

2 Q. And if the application is approved, who are
3 you requesting be appointed the Board's designated operator?

4 A. CNX Gas Company.

5 Q. Is CNX Gas Company, LLC a Virginia General
6 Partnership?

7 A. Yes, it is.

8 Q. Is it a wholly owned, indirect subsidiary of
9 Consol Energy, Inc.?

10 A. Yes, it is.

11 Q. Is CNX authorized to do business with the
12 Commonwealth?

13 A. Yes.

14 Q. And is CNX registered with the DMME and does
15 it have a blanket bond on file as required by law?

16 A. Yes, it does.

17 Q. All right. Les, did you sign the
18 application and notice of hearing for this Nora unit?

19 A. Yes, I did.

20 Q. And were the application and exhibits
21 prepared by you or under your direction?

22 A. Yes, it was.

23 Q. This is a Nora unit and this unit consists
24

1 of 58.77 acres?

2 A. Yes, it does.

3 Q. And is the plan for development one frac
4 well in the unit?

5 A. Yes, it is.

6 Q. And the well location is within the drilling
7 window?

8 A. Yes, it is.

9 Q. Have you listed the respondents that the
10 applicant is seeking to pool in the notice of hearing and at
11 Exhibit B-3 to the application?

12 A. Yes, we have.

13 Q. Do you want to add any additional
14 respondents?

15 A. No.

16 Q. Do you want to dismiss any of the
17 respondents?

18 A. No.

19 Q. What did you do to notify the respondents
20 that there would be a hearing today?

21 A. We mailed by certified mail, return receipt
22 requested on October the 15th, 2004; and we published the
23 notice of hearing and attached location map in the Bluefield
24

1 Daily Telegraph on October the 21st, 2004?

2 Q. And have you filed the proofs of publication
3 and certificates regarding mailing with Mr. Wilson's office?

4 A. Yes, we have.

5 Q. Thank you. If you would refer to Exhibit A,
6 page two, could you please tell the Board what interest the
7 applicant has acquired?

8 A. Yes. We had...we have leased 99.475% of the
9 coal owner's claim to coalbed methane; and 77.4999% of the
10 oil and gas owner's claim to coalbed methane. We're seeking
11 to pool 0.525% of the coal owner's claim to coalbed methane;
12 and 22.5001% of the oil and gas owner's claim to coalbed
13 methane.

14 Q. Thank you. And what are the lease terms
15 you've offered to the people you've been able to lease and
16 the terms you would like the Board to include in any order
17 entered regarding respondents who may be deemed to have
18 leased?

19 A. Our standard coalbed methane lease is a
20 dollar per acre per year with a five year paid up term and a
21 one-eighth production royalty.

22 Q. And what are the...what is the well cost
23 estimated in the actual?

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1 A. The cost is \$213,069.88 to a depth of 2492.
2 The permit number is 5828 and this well has been drilled.
3 Q. Is escrow required on this unit?
4 A. Yes, it is.
5 Q. Okay. And have you filed an Exhibit E
6 regarding the escrow?
7 A. Yes, we have.
8 Q. And what are the reasons in the tracts for
9 the escrow?
10 A. In this unit, it's a conflict between the
11 coal and the oil and gas owner. In Tract 1B and 4, there are
12 some unknowns.
13 Q. Are there any royalty split agreements?
14 A. Yes. They're shown on Exhibit EE.
15 Q. And are you requesting that the Board's
16 order allow the operator to pay these people, that are
17 identified in Exhibit EE, directly in accord with the terms
18 of their agreements instead of escrowing their royalty?
19 A. Yes, we are.
20 Q. All right, Mr. Arrington, is it your opinion
21 that the plan for development as disclosed by the application
22 and exhibits, that is one frac well in the drilling window of
23 the unit, is reasonable plan to develop the coalbed methane
24

1 resources under this unit?

2 A. Yes, it is.

3 Q. And is it further your opinion, that if you

4 combine the applicants leasing and the acquisition of

5 interest in claims in these units...this unit with an order

6 pooling the respondents, that the correlative rights of all

7 the owners and claimants will be protected?

8 A. Yes, it will.

9 MARY JO SWARTZ: That's all I have. Thank you.

10 MASON BRENT: Any questions from the Board?

11 (No audible response.)

12 MASON BRENT: You have nothing further?

13 MARY JO SWARTZ: No.

14 MASON BRENT: Do we have a motion?

15 JIM MCINTYRE: Motion to approve.

16 DONALD RATLIFF: Second, Mr. Chairman.

17 MASON BRENT: I have a motion and a second. Any

18 further discussion?

19 (No audible response.)

20 MASON BRENT: All in favor, signify by saying yes.

21 (All members signify by saying yes.)

22 MASON BRENT: Opposed, say no.

23 (No audible response.)

24

1 MASON BRENT: You have approval. The next item on
2 the agenda is a petition from CNX Gas Company, LLC for
3 pooling of a coalbed methane unit AZ-121. This is docket
4 number VGOB-04-1116-1359. We'd ask all parties interested in
5 addressing the Board on this matter to come forward at this
6 time.

7 MARY JO SWARTZ: Yes. I would request that the
8 Board allow us to address docket numbers seven and eight
9 together. They're both Middle Ridge units. Much of the
10 testimony will be the same regarding both units.

11 MASON BRENT: Any objection from the Board to
12 combining items seven and eight?

13 (No audible response.)

14 MASON BRENT: Hearing none, I will also call a
15 petition...a hearing for a petition from CNX Gas Company, LLC
16 for pooling of coalbed methane unit BA-107. This is docket
17 number VGOB-04-1116-1360. We'd ask all parties who would
18 like to address the Board on this matter to come forward at
19 this time.

20 MARY JO SWARTZ: Yes. Mary Jo Swartz and with me
21 is Les Arrington on CNX, the applicant.

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23 LESLIE K. ARRINGTON

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DIRECT EXAMINATION

QUESTIONS BY MRS. SWARTZ:

Q. Les, you've already been sworn in. So, I will ask you again to state your name for the record with regard to these units.

A. Leslie K. Arrington.

Q. And who do you work for?

A. CNX Gas Company, LLC.

Q. And your title?

A. Manager of permitting...environmental and permitting.

Q. And who is the applicant on these two permits?

A. CNX Gas Company.

Q. Thank you. If these applications are approved, who are you requesting be appointed the Board's designated operator?

A. CNX Gas.

Q. And is CNX a Virginia General Partnership?

A. Yes, it is.

Q. And wholly owned indirect subsidiary of Consol Energy, Inc.?

A. Yes, it is.

1 Q. Is CNX authorized to do business in the
2 Commonwealth?

3 A. Yes, it is.

4 Q. And is CNX registered with the DMME and does
5 it have a blanket bond on file as required by law?

6 A. Yes, it does.

7 Q. Les, did you sign the application and notice
8 of hearing for these two units?

9 A. Yes, I did.

10 Q. And were the applications and exhibits
11 prepared by you or under your direction?

12 A. Yes, they were.

13 Q. Are each of these two units Middle Ridge
14 units consisting of 58.74 acres for BA-107 and 58.84 acres
15 for AZ-121?

16 A. I believe both of them are 58.74.

17 Q. Oh, okay. It must have been a typo. Are
18 the plans for development one frac well in each unit?

19 A. Yes, it is.

20 Q. And is the well...are the well locations
21 within the drilling window of both units?

22 A. Yes.

23 Q. Have you listed the respondents that the
24

1 applicant is seeking to pool in the notice of hearing and
2 that Exhibit B-3 to the applications for the two units under
3 consideration?

4 A. Yes, we have.

5 Q. Do you want to add any additional
6 respondents?

7 A. No.

8 Q. Do you want to dismiss any respondents?

9 A. No.

10 Q. And what did you do to notify these
11 respondents that there would be a hearing today?

12 A. Both unit were mailed by certified mail,
13 return receipt requested on October the 15th, 2004. AZ-121
14 was published in the Bluefield Daily Telegraph on October the
15 22nd, 2004. BA-107 was published on November the 1st, 2004.

16 Q. And have you filed proofs of publication and
17 certificates of mail with Mr. Wilson's office?

18 A. Yes, we have.

19 Q. All right. If you'd refer to Exhibit A,
20 page two, for Unit AZ-121, can you tell the Board what
21 interest the applicants have acquired?

22 A. Yes, we've acquired 94.6374% of the coal
23 owner's claim to coalbed methane; and 41.4346% of the oil and

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1 gas owner's claim to coalbed methane. Seeking to pool
2 5.3626% of the coal owner's claim to coalbed methane; and
3 58.5654% if the oil and gas owner's claim to coalbed methane.

4 Q. All right. And what are the well...the well
5 costs for AZ-121 estimated in an actual?

6 A. The well costs for AZ-121 is \$246,689.84, a
7 depth of 2,472 feet. The permit number is 6055 and the well
8 has been drilled.

9 Q. And is escrow required on this unit?

10 A. Yes, it is due to title conflicts and
11 conflicts between the oil and gas owners. Also, it has some
12 unknown addresses in Tracts 1D, 2D and 2E.

13 Q. All right. And is that filed with Exhibit E
14 regarding escrow?

15 A. Yes, it is.

16 Q. For AZ-121, are there royalty split
17 agreements---?

18 A. Yes, it is.

19 Q. ---as shown on Exhibit EE?

20 A. Yes, it is.

21 Q. And would you request that the Board's order
22 allow the operator to pay these folks identified in EE
23 directly in accord with the terms of their agreement?

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1 A. Yes, we would.

2 Q. All right. And if we turn to Unit BA-107,
3 go to Exhibit A, page two, could you tell the Board what
4 interest CNX has acquired in this unit?

5 A. Yes, we've acquired 98.6474% of the coal,
6 oil and gas owner's claim to coalbed methane. We're seeking
7 to pool 1.3526% of the coal, oil and gas owner's claim to
8 coalbed methane.

9 Q. And what is the well cost on this unit
10 estimated or actual?

11 A. \$213,058.24 to a depth of 2,498.25 feet and
12 permit number is 6219 and the well has been drilled.

13 Q. Okay. And for BA-107 is escrow required?

14 A. Yes, it is, due to a title conflict shown in
15 Tract 8, and that was a revised exhibit that was passed out
16 by Anita a minute ago.

17 Q. Okay. And are there any royalty split
18 agreements with this unit?

19 A. No.

20 Q. Okay. What are the lease terms that you
21 have offered to the people that you have been able to lease
22 and the terms you would like the Board to include in any
23 order entered regarding the respondents who may deem to have
24

1 been leased for both of these units?

2 A. Our coalbed methane lease is a dollar per
3 acre per year with a five year paid up term with a one-eighth
4 royalty.

5 Q. Thank you. Les, is it your opinion that the
6 plan for development as disclosed by the applications and
7 exhibits, that is frac well in drilling window of each unit,
8 is a reasonable plan to develop the coalbed methane resources
9 under these units?

10 A. Yes, it is.

11 Q. And is it your opinion that if you combine
12 the applicants leasing and acquisition of interest and claims
13 in these units with an order pooling the respondents that are
14 identified herein, the correlative rights of all of the
15 owners and claimants will be protected?

16 A. Yes, it will.

17 MARY JO SWARTZ: Thank you. That's all I have.

18 MASON BRENT: Any questions from the Board?

19 DONALD RATLIFF: Mr. Chairman, just curiosity more
20 than anything, the 58 and a 1/2% of the adverse on AX-121,
21 that's a large percent, a lot of those are unknown. Is there
22 a time period that that reverts back to some general fund or
23 anything? Where does that...if those stay unknown for ten
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1 years, what happens?

2 BOB WILSON: The money that goes into the escrow
3 account is subject to escheat by the State, the unknown
4 owners.

5 DONALD RATLIFF: No further questions. I move to
6 approve.

7 PEGGY BARBAR: I second.

8 MASON BRENT: Motion and a second. Any further
9 discussion?

10 (No audible response.)

11 MASON BRENT: All in favor of approval, signify by
12 saying yes.

13 (All members signify by saying yes.)

14 MASON BRENT: Opposed, say no.

15 (No audible response.)

16 MASON BRENT: Okay, you have approval.

17 MARY JO SWARTZ: Thank you.

18 BOB WILSON: Mr. Chairman.

19 MASON BRENT: Mr. Wilson.

20 BOB WILSON: I believe this is all that you folks
21 have this morning, isn't it?

22 LESLIE K. ARRINGTON: Uh-huh.

23 MARY JO SWARTZ: Yes.

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1 BOB WILSON: In September...the September hearing,
2 the Board approved a unit for horizontal drilling project
3 that CNX was about to undertake. The units were approved for
4 the drilling of that one well. If you recall, basically what
5 the Board did was extend the 80 acre grid of the Oakwood
6 Field, but not the field rules, just the grid, in order to
7 set up the stage for this particular type of drilling. It
8 has recently occurred that there's apparently going to be a
9 significant delay, or possibly a significant delay, in the
10 availability of those particular units for drilling. This
11 came to our attention after the deadline for getting on this
12 Board hearing had passed. We discussed various possibilities
13 the operator has or the applicant, I guess I should say, has
14 some deadline problems insofar as equipment availability and
15 this sort of thing. I think they wanted to address that
16 before the Board today. I just wanted to bring you up, or
17 kind of remind you, of where we're coming from in that.

18 LESLIE K. ARRINGTON: Okay. What we...what we
19 propose to do is we want to move just a bit further to the
20 South from where we originally had the first well proposed.
21 In that area that we're at, or speaking to, I've got some
22 exhibits, I'll go through them in just a minute, we were the
23 original fee owners of the property where we want to go to.

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1 We have since sold off the surface and we've sold the oil and
2 gas rights there, but we did retain all of the rights that we
3 needed to be able to drill coalbed methane wells. What I've
4 done...what I've done, when we seen this coming, the only
5 person that would have received notice in that area would
6 have been the oil and gas owner, which I did send them a
7 notice to let them know that, you know, we would possibly be
8 in here. So, what I propose to do is to request that we be
9 able to go down with a location exception and be able to
10 drill these two wells just in the same type of procedures as
11 we brought before the Board originally in September.

12 MASON BRENT: Mr. Wilson, are you all right with
13 that?

14 BOB WILSON: I...I have no knowledge exactly what
15 they're planning to do other than basically just a couple of
16 conversations we've had. Do you have the units established
17 in---?

18 LESLIE K. ARRINGTON: Yeah. I do...I have a map.
19 If you recall back in the hearing, it was requested that I
20 put a map together showing the units expanded out from the
21 state line down to the fault lines, and I've done that. I
22 didn't bring---.

23 (Leslie K. Arrington confers with Anita Duty.)

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1 LESLIE K. ARRINGTON: What I've done...I'll just
2 try to hang it up. The original location was here. Here is
3 the West Virginia line. The original location was here.
4 Approximately from this point down to the South is the
5 property that I was just speaking to that we...we own and we
6 maintained all the rights that we need. And what we propose
7 to do is come down here in this area and locate the wells.
8 The fault lines come right up...right up against us. That's
9 the very....as far south as the coal measure run. Everything
10 else would be the same procedures that we discussed.
11 Same...same coal seams, just---.

12 MASON BRENT: Yeah. I---.

13 DONALD RATLIFF: Mr. Chairman. So, what are you
14 asking us to do, Les?

15 MASON BRENT: Yeah.

16 LESLIE K. ARRINGTON: We need...to be able to get
17 started on these two wells, we need a location exception and
18 permission to go ahead and start...start that construction
19 and drilling.

20 MASON BRENT: I---.

21 DENNIS GARBIS: And why do you need the exception?

22 LESLIE K. ARRINGTON: These two wells are 300 feet
23 apart. We can't have a well closer than 500 feet.

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1 BOB WILSON: I believe the last decision, they
2 decided that would be part of the unit construction and the
3 location exception was actually superfluous because only one
4 of those wells was going to produce gas.

5 LESLIE K. ARRINGTON: That's correct. Only one of
6 them produces gas. One is just for drilling.

7 MASON BRENT: I mean, I would just ask, if it's
8 appropriate for us to approve a well location exception...you
9 know, I heard about your notice, but without bringing this
10 formally to the Board as a...you know, as a docket item.

11 SHARON PIGEON: I think it should mean a
12 publication.

13 BOB WILSON: There are notice issues involved
14 without a doubt. I'm not sure...there was some explanation
15 that you said that you had provided notice to what party?

16 LESLIE K. ARRINGTON: Yes. The only other
17 notice...the only owner in this area other than us is Cabot,
18 and they own the oil and gas interest. I sent them the
19 standard notice.

20 BOB WILSON: But it has not been published as part
21 of the Board's---.

22 LESLIE K. ARRINGTON: No.

23 BOB WILSON: ---agenda.

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1 MASON BRENT: That's right. I mean, I don't see
2 how you can properly notify them if you're not notifying them
3 of a Board, you know, docket number. To me, it would not be,
4 and I'm asking, I'm not dictating, but to me it would not be
5 a proper notice unless there is a...unless there is a---.
6 LESLIE K. ARRINGTON: Publication.
7 MASON BRENT: ---bonafide publication and docket
8 item. I'm...you know, I'm just---.
9 LESLIE K. ARRINGTON: Okay.
10 MASON BRENT: ---throwing that out for discussion
11 right now. Any comment on that?
12 DENNIS GARBIS: I think that makes sense. I think
13 you're accurate.
14 LESLIE K. ARRINGTON: Okay.
15 BOB WILSON: We have...we have had precedent---.
16 PEGGY BARBAR: I was going to ask if the Board
17 looked at any other similar situations like that where a
18 relocation has been petitioned to the Board.
19 BOB WILSON: I don't personally know of any
20 instances where we have addressed something like this without
21 it being on the docket and without formal notice. Again, my
22 memory as it goes back, I don't know of any situation like
23 that. We do, as we mentioned, I think last time relative to
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1 some of the notice issues associated with the disbursement,
2 we have in the past been told neither the Department nor the
3 Board has the authority to waive notice requirements.

4 MARY JO SWARTZ: Les, if I could ask, what is the
5 practical effect of having to wait another month in order to
6 effectuate good notice, if any?

7 LESLIE K. ARRINGTON: Just that we won't be able to
8 get this in this year is the problem. That was what my
9 mission was is to get it in this year.

10 MARY JO SWARTZ: When you gave the notice to the
11 owner that you had indicated, was there a mention in there
12 that this would be brought---?

13 LESLIE K. ARRINGTON: Yes.

14 MARY JO SWARTZ: ---and that it would be just an
15 extension at the Board hearing---?

16 LESLIE K. ARRINGTON: Uh-huh. Yes, it was.

17 MARY JO SWARTZ: ---in that notice?

18 LESLIE K. ARRINGTON: Uh-huh.

19 MARY JO SWARTZ: So it's kind of like we put the---
20 .

21 LESLIE K. ARRINGTON: It just that it wasn't
22 published---.

23 MARY JO SWARTZ: ---cart before the horse. We got
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1 the notice out first.

2 LESLIE K. ARRINGTON: ---and it wasn't on the
3 docket.

4 MASON BRENT: But the notice has not been
5 published?

6 LESLIE K. ARRINGTON: Yes.

7 MARY JO SWARTZ: Right.

8 LESLIE K. ARRINGTON: And the one thing...this
9 docket item was kind of left open at the September hearing.
10 One of the things...reasons was for me to produce the map.

11 MASON BRENT: I'm sorry, I'm just not prepared to
12 hear that today without proper publication.

13 LESLIE K. ARRINGTON: Can we...can we request that
14 it be on next month's docket and get it published?

15 BOB WILSON: I see no reason that we could not.
16 The deadline has passed for new docket items, but the docket
17 has not been published. So, I see no reason we couldn't put
18 it on for next month.

19 LESLIE K. ARRINGTON: Okay. Because I have
20 everything ready. I mean, it's all done. Okay.

21 MARY JO SWARTZ: Thank you.

22 LESLIE K. ARRINGTON: Thank you.

23 MASON BRENT: Thank you.

24

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1 MARY JO SWARTZ: That's all we have.

2 MASON BRENT: Does anybody need to take a five or
3 ten minute break before we bring on Equitable or do you want
4 to keep on going?

5 DONALD RATLIFF: A five minute break.

6 MASON BRENT: Okay. We'll take a five minute
7 break.

8 (Break.)

9 MASON BRENT: The next item on today's agenda is a
10 petition from Equitable Production Company for a well
11 location exception for proposed well V-502780. This is
12 docket number VGOB-04-1116-1361. I would ask all parties
13 that are interested in addressing the Board on this matter to
14 come forward at this time.

15 JIM KISER: Mr. Chairman and members of the Board,
16 Jim Kiser and Don Hall on behalf of Equitable Production
17 Company. We'd ask that Mr. Hall, our witness, be sworn at
18 this time.

19 (Don Hall is duly sworn.)

20 MASON BRENT: There are no others, so you may
21 proceed.

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DON HALL

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DIRECT EXAMINATION

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1 QUESTIONS BY JIM KISER:

2 Q. Mr. Hall, if you'd state your name, who you're employed by
3 and in what capacity?

4 A. My name is Don Hall. I'm employed by Equitable
5 Production Company as district landman.

6 Q. And you're familiar with the application we filed here
7 seeking a location exception for well V-502780?

8 A. Yes.

9 Q. And do your responsibilities include the land involved in
10 this unit and in the surrounding area?

11 A. They do.

12 Q. And have all interested parties been notified as required by
13 Section 4B of the Virginia Gas and Oil Board Regulations?

14 A. They have.

15 Q. Could you indicate for the Board the ownership of the oil
16 and gas underlying the unit for well V-502780?

17 A. Penn Virginia Oil and Gas Company owns a 100% of the
18 oil and gas.

19 Q. Okay. And we're only seeking an exception from one well,
20 is that correct?

21 A. That's correct.

22 Q. And that well is 2,440 feet and 39 inches from this location.
23 So, it's approximately an exception of 60 feet?

24 A. That's correct.

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1 Q. And does Equitable have the right to operate that
2 reciprocal well?

3 A. We do.

4 Q. So there's no correlative rights issues?

5 A. No.

6 Q. Could you explain for the Board, in conjunction with Exhibit
7 A to the application, which will serve as our Exhibit for this hearing, why we need
8 this location exception?

9 A. Well, there's mine activity going on in the area and Penn
10 Virginia Operating Company, who owns the coal, has picked this location to keep
11 us out of...from intervening with out mining operations.

12 Q. Yeah, it looks like there's two different DML permits right
13 there in the area?

14 A. That's correct.

15 Q. Okay. So, this was a location that was essentially picked
16 by the coal owner?

17 A. That's correct.

18 Q. Okay. And in the event the location exception were not
19 granted, would you project the estimated loss of reserves resulting in waste?

20 A. 250 million cubic feet.

21 Q. And what's the total depth of this proposed well under the
22 applicant's plan of development?

23 A. 5211 feet.

24 Q. And are you requesting that this location exception cover

1 conventional gas reserves to include the designated formations from the surface
2 to the total depth drilled?

3 A. Yes.

4 Q. And has this permit been applied for?

5 A. No.

6 Q. It has not?

7 A. No.

8 Q. Okay, in your opinion, would the granting of this location
9 exception be in the best interest to preventing waste, protecting correlative rights,
10 and maximizing the recovery of gas reserves underlying the unit for well V-
11 502780?

12 A. Yes.

13 JIM KISER: Nothing further of this witness at this time, Mr.
14 Chairman.

15 MASON BRENT: Are there any questions from the Board?
16 (No audible response.)

17 MASON BRENT: Do you have anything further?

18 JIM KISER: Mr. Chairman, we'd ask that the application be
19 approved as submitted.

20 DONALD RATLIFF: I so move, Mr. Chairman.

21 MASON BRENT: I have a motion.

22 JIM McINTYRE: Second.

23 MASON BRENT: A second. Any further discussion?

24 (No audible response)

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1 MASON BRENT: All in favor, signify by saying yes.

2 (All members signify by saying yes.)

3 MASON BRENT: Opposed, say no.

4 (No audible response)

5 MASON BRENT: You have approval. The next item on the agenda
6 is a petition from Equitable Production Company for creation and a pooling of
7 conventional gas Unit V-502726. This is docket number VGOB-04-1116-1362.
8 I'd ask all parties that are interested in addressing the Board on this matter to
9 come forward at this time.

10 JIM KISER: Mr. Chairman and Board Members, again, Jim Kiser
11 and Don Hall on behalf of Equitable Production Company. We do have a revised
12 set of exhibits that Mr. Hall is passing out that will include a revised Exhibit B, a B-
13 2, which is new, a Revised Exhibit B-3 and a E, which he has included, but is not
14 revised, correct?

15 DON HALL: That's correct.

16 JIM KISER: So, you've got a whole...you've got new everything
17 except the plat and an AFE because we've picked up some additional leases.

18 MASON BRENT: There are no others. You may
19 proceed.

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21 DON HALL

22 DIRECT EXAMINATION

23 QUESTIONS BY JIM KISER:

24 Q. Mr. Hall, do your responsibilities include the land involved

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1 in the unit for this well, which is V-502726 and the surrounding area?

2 A. They do.

3 Q. And are you familiar with Equitable's application seeking to

4 establish a unit and pooling any unleased interest for this well, which was dated

5 October 15, 2004?

6 A. Yes.

7 Q. Does Equitable own drilling rights in the unit involved

8 here?

9 A. We do.

10 Q. Okay, now prior to filing the application, were efforts made

11 to contact each of the respondents and an attempt made to work out an

12 agreement regarding the voluntary oil and gas lease?

13 A. Yes.

14 Q. Now, the interest of Equitable under lease in the gas estate

15 at the time of the application was 65.29%, is that correct?

16 A. That's correct.

17 Q. Okay. Now, since that time, have you continued to attempt

18 to reach an agreement with the unleased parties?

19 A. We have.

20 Q. And you have been successful in obtaining, I think, two

21 new leases?

22 A. That's correct.

23 Q. Could you point those out for the Board?

24 A. They're listed in Exhibit B-2 as Gordon P. Nelson and

1 David Nelson. Those two leases that we have acquired since the application
2 was---.

3 Q. Okay. So that will now bring the percentage under lease
4 within the unit to 73.81%?

5 A. That's correct.

6 Q. Okay. And you're familiar with the ownership of drilling
7 rights of parties other than Equitable, in other words, the unleased parties?

8 A. That's correct, yes.

9 Q. And at the time of the application, that was 34.709914%
10 and is now 26.19%, is that correct?

11 A. Yes.

12 Q. Okay. And are all the unleased parties as they exist now
13 set out at your revised Exhibit B-3?

14 A. Yes.

15 Q. Okay. And we do have one tract where there's some
16 unknown heirs, Viola Carter?

17 A. That's...yes, that's the only unleased tract.

18 Q. Were reasonable and diligent efforts made and sources
19 checked to identify and attempt to locate these unknown heirs including primary
20 sources such as deeds records, probate records, assessor's records, treasurer's
21 records, and secondary sources such as telephone directories, city directories,
22 family and friends?

23 A. Yes.

24 Q. In your professional opinion, was due diligence exercised

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1 to locate each of respondents named in Exhibit B, B-2 and B-3?

2 A. Yes.

3 Q. And are the addresses set out in revised Exhibit B to the
4 application the last known addresses for the respondents?

5 A. They are.

6 Q. Are you requesting this Board to force pool all unleased
7 interests listed at Revised Exhibit B-3?

8 A. Yes.

9 Q. And are you familiar with the fair market value of drilling
10 rights of the unit here and in the surrounding area?

11 A. Yes.

12 Q. Could you advise the Board as to what those are?

13 A. Five dollar term...a five dollar bonus, five year term, and a
14 one-eighth royalty.

15 Q. And, in your opinion, do the terms you just testified to
16 represent the fair market value of and fair and reasonable compensation to be
17 paid for drilling rights within this unit?

18 A. They do.

19 Q. Now, as to our one unleased party, which is an unknown
20 party, should that party be located, do you recommend that they be allowed the
21 following options with respect to their ownership interest within the unit: one,
22 participation; two, a cash bonus of five dollars per net mineral acre plus a one-
23 eighth of eight-eighths royalty; or three, in lieu of a cash bonus and one-eighth of
24 eight- eighths royalty share in operation of the well on a carried basis as a carried

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1 operator under the following conditions: Such carried operator should be entitled
2 to the share production from the tracts pooled accruing to his interest exclusive of
3 any royalty or over riding royalty reserved in any leases, assignments thereof, or
4 agreements relating thereto of such tracts but only after the proceeds applicable
5 to his share equal A) 300% of share of such costs applicable to the interest of the
6 carried operator of a leased tract or portion thereof; or B) 200% of the share of
7 such costs applicable to the interest of the carried operator of an unleased tract or
8 portion thereof?

9 A. Yes.

10 Q. Do you recommend the order provide that elections by
11 respondents be in writing and sent to the applicant at Equitable Production
12 Company, 1710 Pennsylvania Avenue, Charleston, West Virginia 25328, attention
13 Melanie Freeman, regulatory?

14 A. Yes.

15 Q. And should this be the address for all communications with
16 the applicant concerning any force pooling order?

17 A. It should.

18 Q. Do you recommend that the order provide that if no written
19 election is promptly made, then such respondent should be deemed to have
20 elected the cash royalty option or deemed to be leased in lieu of participation?

21 A. Yes.

22 Q. Should unleased respondents be given 30 days from the
23 date that the Board order is executed to file their written elections?

24 A. Yes.

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1 Q. If an unleased respondent elects to participate, should they
2 be given 45 days to pay for their proportioned share of well costs?

3 A. Yes.

4 Q. Does the applicant expect any party electing to participate
5 to pay in advance that parties share of completed well costs?

6 A. Yes.

7 Q. Should the applicant be allowed 120 days following
8 recording of the Board order and, thereafter, annual on that date until production
9 is achieved to pay or tender any cash bonus or delay rental becoming due under
10 the force pooling order?

11 A. Yes.

12 Q. Do you recommend that the order provide that if a
13 respondent elects to participate, but fails to pay their proportionate share of well
14 costs satisfactory to the applicant, then respondents election to participate should
15 be treated as having been withdrawn and void and such respondent should be
16 treated as if no initial election had been filed under the order?

17 A. Yes.

18 Q. Do you recommend that the order provide that where a
19 respondent elects to participate but defaults in regard to payment of well costs,
20 any cash sum becoming payable to that respondent be paid within 60 days after
21 the last date on which such respondent could have paid or made satisfactory
22 arrangements for the payment of those well costs?

23 A. Yes.

24 Q. We do have...it's a conventional well and we do have one

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1 unknown interest. So, we do need to establish an escrow account for Tract 6 of
2 the unit, is that correct?

3 A. That's correct.

4 Q. And who should be named operator under the forced
5 pooling order?

6 A. Equitable Production Company.

7 Q. And what is the total depth of the proposed well?

8 A. 5200 feet.

9 Q. The estimated reserves for the unit?

10 A. 400 million cubic feet.

11 Q. Now, are you familiar with the well costs?

12 A. Yes.

13 Q. Has an AFE been reviewed, signed and submitted to the
14 Board as Exhibit C to the application?

15 A. It has.

16 Q. Does the AFE, in your opinion, represent a reasonable
17 estimate of the well costs?

18 A. It does.

19 Q. And could you state for the Board both the dry hole costs
20 and completed well costs for 502726?

21 A. Dry hole costs is \$214,003 and the completed well cost is
22 \$430,202.

23 Q. And do these costs anticipate a multiple completion?

24 A. They do.

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1 Q. Does your AFE include a reasonable charge for
2 supervision?
3 A. Yes.
4 Q. In your professional opinion, would the granting of this
5 application be in the best interest of the conservation, the prevention of waste,
6 and the protection of correlative rights?
7 A. Yes.
8 JIM KISER: Nothing further of this witness at this time, Mr.
9 Chairman.
10 MASON BRENT: Any questions from Board?
11 (No audible response)
12 MASON BRENT: Do you have anything further?
13 JIM KISER: We'd ask that the application be approved with the
14 revised set of exhibits.
15 DONALD RATLIFF: So moved, Mr. Chairman.
16 MASON BRENT: We have a motion. Do we have a second?
17 JIM KISER: Second.
18 MASON BRENT: Any further discussion?
19 (No audible response.)
20 MASON BRENT: All in favor, signify by saying yes.
21 (All members signify by saying yes.)
22 MASON BRENT: Opposed, say no.
23 (No audible response.)
24 MASON BRENT: You have approval. The next item on the agenda

1 is a petition from Equitable Production Company for pooling of a coalbed methane
2 Unit VC-504248. This is docket number VGOB-04-1116-1363. I'd
3 ask all parties that are interested in addressing the Board
4 on this matter to come forward at this time.

5 JIM KISER: Mr. Chairman and Board members, again,
6 Jim Kiser and Don Hall on behalf of Equitable. This
7 particular well is a coalbed methane well. The frac that we
8 have...part of it we're pooling in, which is Tract 3, is a
9 tract and ownership that we pooled last month...was it last
10 month?

11 DON HALL: No. Last month---.

12 JIM KISER: Two months ago?

13 DON HALL: ---would be two months ago.

14 JIM KISER: Yeah. There's a mix of some unleased
15 folks that we just haven't been able to get leased, but then
16 also a lot of unknown interest, by way of introduction.

17 MASON BRENT: There are no others. You may
18 proceed.

19

20 DON HALL

21 DIRECT EXAMINATION

22 QUESTIONS BY JIM KISER:

23 Q. Mr. Hall, you're familiar with the land involved in this unit
24 and the surrounding area?

--

1 A. Yes.

2 Q. And you're familiar with the application we filed seeking
3 a...to pool unleased interest?

4 A. Yes.

5 Q. Does Equitable own drilling rights in the unit involved
6 here?

7 A. We do.

8 Q. Now, prior to filing the applications, did you make an
9 attempt to contact each of the respondents and work out a voluntary oil and gas
10 lease?

11 A. Yes.

12 Q. What is the interest of Equitable in the gas estate within
13 the unit?

14 A. We have 89.08%.

15 Q. And the interest of Equitable in the coal estate under
16 lease?

17 A. We have a 100% of the coal estate leased.

18 Q. And are all the unleased parties set out at Exhibit B-3?

19 A. They are.

20 Q. And are you familiar with the ownership of drilling rights of
21 parties other than Equitable underlying this unit?

22 A. Yes.

23 Q. And the interest within the gas estate that remains
24 unleased is 10.91?

1 A. That's correct.

2 Q. And the coal estate is a 100% leased?

3 A. That's correct.

4 Q. We do have quiet a few unknowns in this particular...in

5 particular in Tract 3...I guess, only in Tract 3. Did you all and your staff make

6 reasonable and diligent efforts to identify and locate these unknown people

7 including primary sources such as deed records, probate records, assessor's

8 records, treasurer's records, and secondary sources such as telephone

9 directories, city directories, family and friends?

10 A. Yes.

11 Q. In your professional opinion, was due diligence exercised

12 to locate each of respondents named in Exhibit B?

13 A. Yes.

14 Q. And are the addresses set out in Exhibit B, the last known

15 addresses for the respondents?

16 A. They are.

17 Q. Are you requesting this Board to force pool all unleased

18 interest as listed at Exhibit B-3?

19 A. Yes.

20 Q. And are you familiar with the fair market value of drilling

21 rights of the unit here and in the surrounding area?

22 A. Yes, I am.

23 Q. Could you advise the Board, again, as to what those are?

24 A. We pay a five dollar bonus, five year term, with a one-

1 eighth royalty.

2 Q. And, in your professional opinion, do the terms you just
3 testified to represent the fair market value of and fair and reasonable
4 compensation to be paid for drilling rights within this unit?

5 A. Yes.

6 JIM KISER: Mr. Chairman, at this time, I would like to incorporate
7 the testimony that we just took in VGOB docket number 04-1116-1362 regarding
8 the various statutory election options afforded the unleased parties and their time
9 frames in which to make those and the different implications or ramifications of
10 making those.

11 MASON BRENT: That will be incorporated.

12 Q. Okay, Mr. Hall, we do have a conflicting claim situation
13 here. So, the Board does need to establish an escrow account?

14 A. Yes, that's correct.

15 Q. And that will be for Tract...just Tract 3?

16 A. That's correct.

17 Q. Okay. And who should be named operator under any
18 order?

19 A. Equitable Production Company.

20 Q. And the total depth of the proposed well?

21 A. It's 2606 feet.

22 Q. The estimated reserves for the unit?

23 A. 400 million cubic feet.

24 Q. Are you familiar with the costs for this well?

~

1 A. Yes.

2 Q. Has an AFE been reviewed, signed and submitted to the
3 Board as Exhibit C?

4 A. It has.

5 Q. In your opinion, does it represent a reasonable estimate of
6 the well costs?

7 A. It does.

8 Q. Could you state both the dry hole costs and the completed
9 well costs?

10 A. Dry hole costs is \$113,994 and the completed well costs is
11 \$278,941.

12 Q. And do these costs anticipate a multiple completion?

13 A. They do.

14 Q. Does your AFE include a reasonable charge for
15 supervision?

16 A. Yes.

17 Q. And, in your professional opinion, would the granting of
18 this application be in the best interest of the conservation, the prevention of
19 waste, and the protection of correlative rights?

20 A. Yes.

21 JIM KISER: Nothing further of this witness at this time, Mr.
22 Chairman.

23 MASON BRENT: Any questions from the Board?

24 DON HALL: Let me ask...looking at my Exhibit B-3, my copy, I have

1 page two in that exhibit twice. You might check and see if yours has two page
2 twos.

3 JIM KISER: Which one?

4 MASON BRENT: Mine does.

5 DON HALL: Exhibit B-3.

6 MASON BRENT: I'd rather have too many than too little.

7 JIM KISER: Yeah, mine does too. Well, just take one of those out.

8 DON HALL: Yeah.

9 JIM KISER: That's right. It's better than going from one to three, I
10 guess, with no two.

11 MASON BRENT: Any questions from the Board?

12 (No audible response)

13 MASON BRENT: Do you have anything further?

14 JIM KISER: We'd ask that the application be approved as submitted
15 with the removal of one of the two page twos in B-3.

16 MASON BRENT: Do I have a motion?

17 JIM McINTYRE: Motion to approve.

18 MASON BRENT: Motion to approve. Do we have a second?

19 DENNIS GARBIS: Second.

20 MASON BRENT: We have a motion to approve and a second. Any
21 further discussion?

22 (No audible response.)

23 MASON BRENT: All in favor of approval, signify by saying yes.

24 (All members signify by saying yes, but Donald Ratliff.)

1 MASON BRENT: Opposed, say no.

2 DONALD RATLIFF: I'll abstain, Mr. Chairman.

3 MASON BRENT: We have one abstention. You have approval.

4 DON HALL: Thank you.

5 MASON BRENT: The next item on our agenda is a petition from

6 Dart Oil and Gas Corporation for creation and pooling Unit

7 Johnson No. 2. This is docket number VGOB-04-1116-1364.

8 I'll ask all parties that interested in addressing the Board

9 on this matter to come forward at this time.

10 JIM KISER: Mr. Chairman and Board members, Jim

11 Kiser on behalf of Dart Oil and Gas. We'd ask at this time

12 that this petition be withdrawn. We'll probably be back

13 before the Board, maybe in January, with a different scheme

14 to drill these wells.

15 MASON BRENT: It will be withdrawn. Last item I

16 have for the Board is the approval of last month's meeting

17 minutes, which I believe has been distributed to all of the

18 Board members, and I trust have been reviewed.

19 DONALD RATLIFF: I move to approve, Mr. Chairman.

20 JIM MCINTYRE: Second.

21 MASON BRENT: We have a motion to approve and a

22 second. All in favor, signify by saying yes.

23 (All members signify by saying yes.)

24

--

1 MASON BRENT: Opposed, say no.

2 (No audible response.)

3 MASON BRENT: Okay, the minutes are approved.
4 Unless there's anything else...Mr. Wilson, do you have
5 anything else?

6 BOB WILSON: I just wanted to remind...remind
7 everybody that the December hearing will not be the third
8 Tuesday. It will be December the 14th, which is the second
9 Tuesday, as you all approved for changing around the..for the
10 Christmas Holiday. We are still planning to do the Monday
11 before that as a day long training session for Board members.
12 I'll give you a little more details on that as we get into
13 it. Should something happen to derail this, I'll let you
14 know in plenty of time ahead to make your plans. But as of
15 now, we're planning that Monday, the 13th for training a
16 session.

17 DENNIS GARBIS: Where will that training be held?

18 BOB WILSON: Well, we envision being out in the
19 morning visiting some field locations and then we'll have a
20 facility here in town, either at our office or at the hotel
21 or here at the college, for the afternoon session. And I'll
22 also tell you that we're going to have a very, heavy docket
23 in December the way it's shaping up right now. So, it's

24

--

1 going to be a long weekend for you.

2 MASON BRENT: Thanks for that heads up.

3 (Laughs.)

4 BOB WILSON: Gives you time to come up with your
5 excuses.

6 MASON BRENT: Okay, we will consider this meeting
7 adjourned.

8

9 STATE OF VIRGINIA,

10 COUNTY OF BUCHANAN, to-wit:

11 I, Jay Rife, Court Reporter and Notary Public for
12 the State of Virginia, do hereby certify that the foregoing
13 hearing was recorded by me on a tape recording machine and
14 later transcribed under my supervision.

15 Given under my hand and seal on this the 1st day of
16 December, 2004.

17

18 NOTARY PUBLIC

19

20 My commission expires: August 31, 2005.

21

22

23

24

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